

Looking for something to read? See our [Reading List](#); these books, separated by category, are ones we find interesting and insightful. We will be adding to the list over time.

[Posted: July 15, 2024—9:30 AM ET] Global equity markets are mixed this morning. In Europe, the Euro Stoxx 50 closed down 0.6% from its prior close. In Asia, the MSCI Asia Apex 50 Index closed down 0.5%. Chinese markets were mixed, with the Shanghai Composite up 0.1% from its previous close and the Shenzhen Composite down 0.8%. US equity index futures are signaling a higher open.

With 27 companies having reported so far, S&P 500 earnings for Q2 are running at \$59.30 per share, compared to estimates of \$58.94, which is up 8.0% from Q2 2023. Of the companies that have reported thus far, 81.5% have exceeded expectations while 14.8% have fallen short of expectations.

The Confluence macro team publishes a plethora of research reports and multimedia offerings on a weekly and quarterly basis, all available on our [website](#). We highlight recent publications below, with new items of the day emphasized in bold:

- [Bi-Weekly Geopolitical Report](#) (7/1/2024) (with associated [podcast](#)): “The EU Parliamentary Elections: New Strength for the Right”
- **[Asset Allocation Bi-Weekly](#) (7/15/2024) (with associated [podcast](#)): “A New Factor for Gold Prices”**

Our *Comment* today opens with a quick note on the aftermath of the attempted assassination of former President Trump, although we caution that it is still too early to really understand how the incident could affect US politics and policy. We next review several other international and US developments with the potential to affect the financial markets today, including more news about China’s worsening trade relations with the West and a note on the US apartment market.

US Politics: Law enforcement officials [continue to investigate Saturday evening’s attempted assassination of former President Trump](#). At the same time, investors and commentators are trying to gauge the impact on November’s elections. At this early moment, a key consideration is whether the event will increase the probability of a Trump win in the presidential contest and the probability of Republican gains in the Senate and House of Representatives. Early signs suggest that the incident has, indeed, boosted support for Trump and the Republicans so far.

- For a time earlier this month, increased expectations for a Trump win prompted a clear [“Trump trade”](#) based on the idea that his policy proposals (such as less independence for

the Federal Reserve, a dramatic hike in import tariffs, and tax cuts) would be inflationary. For example, those concerns temporarily pushed Treasury yields higher.

- Such concerns had diminished in the face of economic data pointing to moderating economic growth and lower inflation. Going forward, more such data could well continue to offset concerns about inflationary policies under a new Trump administration. All the same, we caution that these are early days in this crisis, and the full implications for investors are still to be seen.

China: New data today shows gross domestic product [rose by a seasonally adjusted 0.7% in the second quarter, short of expectations and much weaker than the 1.5% gain in the first quarter](#). As a result, second-quarter GDP was up just 4.7% from the same period one year earlier, also short of expectations and weaker than the 5.3% increase in the year ended in the first quarter. Details in the data showed most of the growth in the second quarter came from new factory investment and exports, while weak consumer demand and residential investment pulled down growth.

- The expansion in factory investment and exports is consistent with the government's plan to rekindle growth by supporting the production and foreign sales of advanced technology goods, such as electric vehicles and solar panels. However, a key problem with that strategy is that it is generating pushback and protectionist measures by countries fearful of having their domestic industries devastated by cheap Chinese goods.
- The continued weak economic data will keep alive hopes for added stimulus measures from the government.
- The weak figures will also likely inform the discussions at this week's Third Plenum, in which top Communist Party officials will work on new long-range economic reforms.

China-Global Rare Earths Market: In one example of how excess Chinese production can drive down prices and undermine other countries' producers, new data reveals that surging Chinese output [has pushed the price of certain rare earth minerals down almost 20% this year](#). China already dominates the reserves, production, and refining of these minerals, which are important to the electrified economy of the future. A likely reason for China's overproduction of them is to short-circuit the effort by Western countries to develop their own independent sources.

Canada-China: Canadian Deputy Prime Minister Freeland, who is also the country's finance minister, [warned for the first time that Ottawa may impose protectionist tariffs against a broad range of Chinese imports](#). Previewing the government's upcoming consultation with businesses about potential tariffs on Chinese electric vehicles, Freeland forcefully argued that world leaders for too long have accepted the unfair trading advantages arising from China's communist economy.

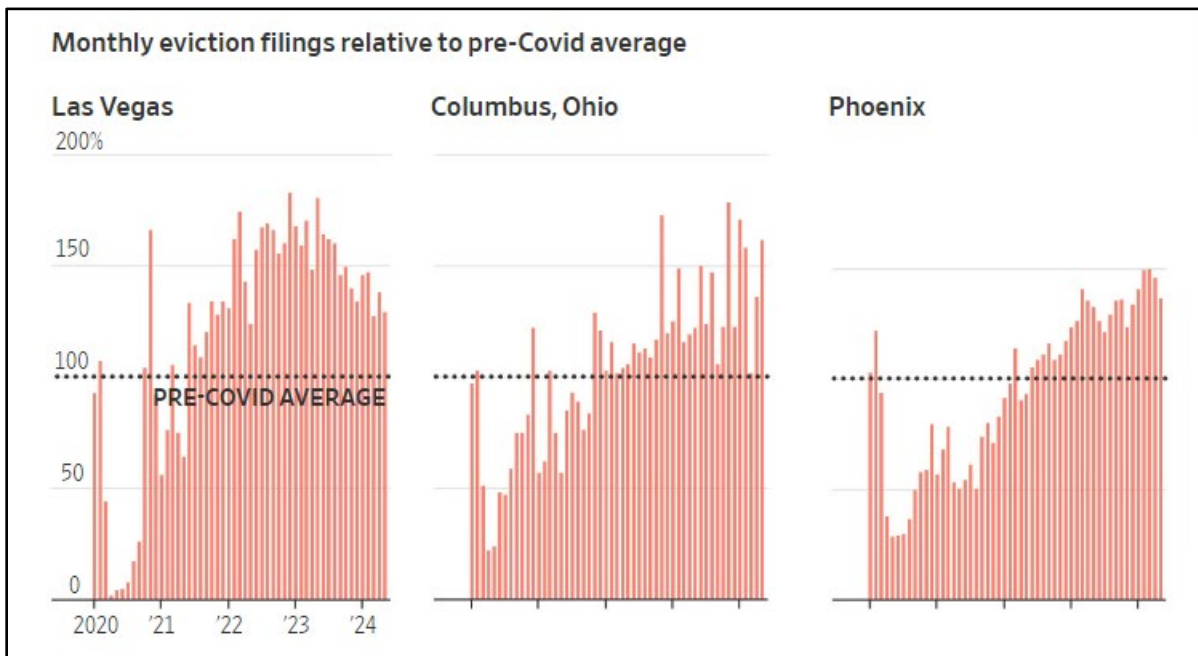
- Given Canada's enormous trade relationship with the US, policymakers in Ottawa have a strong incentive to be aligned with US trading policies against China. The US is also likely pressuring Ottawa to ensure Chinese EVs don't reach the US via Canada to skirt the new US tariffs against them.

- In any case, Freeland’s warning is another sign of how the US geopolitical and economic bloc is closing ranks and erecting broad new protectionist measures against Chinese exports. Of course, that will further worsen tensions between the West and China.

France: As politicians keep trying to form a government after no party gained a majority in the country’s recent parliamentary elections, the state financial watchdog Cour des Comptes [has issued a report suggesting that continued big budget deficits and high debt have left the government “dangerously exposed” to a fresh economic crisis](#). The audit report warns that in the event of a new crisis, the government may not have the financial capacity to respond appropriately.

Italy: Prime Minister Meloni’s right-wing government [said it will propose new legislation to bring small, modular nuclear reactors into the country’s energy mix](#), almost 35 years after Italy closed its last nuclear power plant. The new policy would complement Meloni’s moves to restrict the further development of solar power and other renewables. More broadly, the policy is another example of the increased interest in nuclear power around the world, which has driven up spot uranium prices.

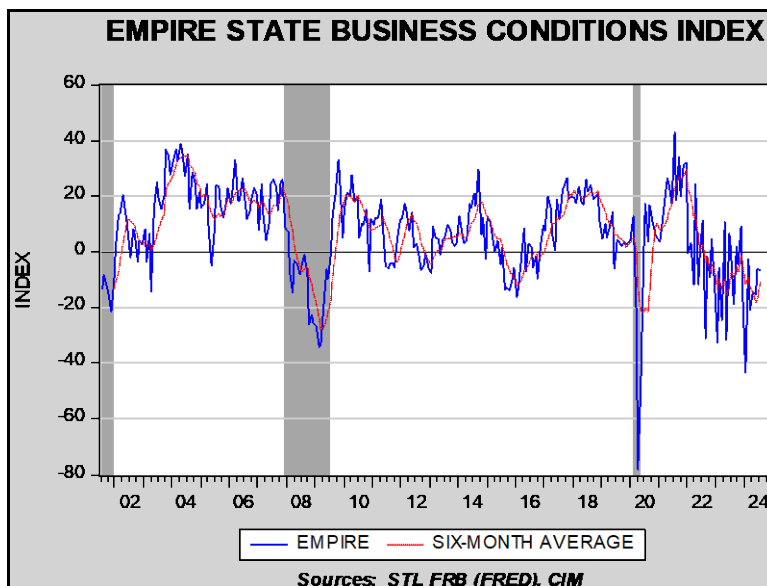
US Apartment Industry: Although average renter eviction rates nationwide are now back down to their pre-pandemic levels, new data [shows that the rates remain high](#) in several cities in the Sunbelt and elsewhere that experienced a surge in population and rent rates. The high eviction rates suggest landlords may be coming to the end of their ability to keep hiking rents. If so, stabilizing rent rates could help hold down consumer price inflation in the coming months and quarters, helping convince the Federal Reserve to cut interest rates.



(Source: Wall Street Journal)

US Economic Releases

Factory activity contracted in New York, according to the July Empire State Manufacturing Survey. The *Federal Reserve Bank of New York's general business index* fell from -6.0 to -6.6. The survey showed that employment growth continues to slow but firms remain relatively optimistic about future conditions.



The chart above shows the general business conditions index along with its six-month moving average. In July, the moving average improved from -17.15 to -11.0.

The table below lists the economic releases and/or Fed events scheduled for the rest of the day.

Economic Releases		
No economic releases for the rest of today		
Federal Reserve		
ET	Speaker or Event	District or Position
12:30	Jerome Powell Interviewed by David Rubenstein	Chairman of the Board of Governors
16:30	Mary Daly Speaks in Q&A on Economy, Tech	President of the Federal Reserve Bank of San Francisco

Foreign Economic News

We monitor numerous global economic indicators on a continuous basis. The most significant international news that was released overnight is outlined below. Not all releases are equally significant, thus we have created a star rating to convey to our readers the importance of the various indicators. The rating column below is a three-star scale of importance, with one star being the least important and three stars being the most important. We note that these ratings do change over time as economic circumstances change. Additionally, for ease of reading, we have also color-coded the market impact section, which indicates the effect on the foreign market. Red indicates a concerning development, yellow indicates an emerging trend that we are following closely for possible complications, and green indicates neutral conditions. We will add a paragraph below if any development merits further explanation.

Country	Indicator			Current	Prior	Expected	Rating	Market Impact
ASIA-PACIFIC								
New Zealand	REINZ House Sales	y/y	Jun	-25.6%	6.8%		**	Equity bearish, bond bullish
China	GDP	q/q	2Q	4.7	5.3	5.1	***	Equity and bond neutral
	Industrial Production	y/y	Jun	5.3%	5.6%	5.0%	***	Equity and bond neutral
	Retail Sales	y/y	Jun	2.0%	3.7%	3.4%	**	Equity bearish, bond bullish
	Fixed Assets Ex Rural YTD	y/y	Jun	3.9%	4.0%	3.9%	**	Equity and bond neutral
India	Wholesale Prices	m/m	Jun	3.36%	2.61%	3.60%	*	Equity and bond neutral
India	Trade Balance	m/m	Jun	-\$20977m	-\$23782m	-\$21300m	**	Equity and bond neutral
	Exports	y/y	Jun	2.6%	9.1%		**	Equity and bond neutral
	Imports	y/y	Jun	5.0%	7.7%		**	Equity and bond neutral
EUROPE								
Eurozone	Industrial Production WDA	y/y	May	-2.9%	-3.1%	-3.6%	**	Equity bullish, bond bearish
UK	Rightmove House Prices	y/y	Jul	0.40%	0.60%		**	Equity and bond neutral
Switzerland	Producer & Import Prices	y/y	Jun	-1.9%	-1.8%		**	Equity and bond neutral
	Domestic Sight Deposits CHF	w/w	12-Jul	450.3b	444.4b		*	Equity and bond neutral
	Total Sight Deposits CHF	w/w	12-Jul	458.9b	453.4b		*	Equity and bond neutral
Russia	Trade Balance	m/m	Feb	12.6b	10.9b		**	Equity and bond neutral
	Exports	m/m	Feb	33.2b	33.6b		*	Equity and bond neutral
	Imports	m/m	Feb	24.5b	22.7b		*	Equity and bond neutral
AMERICAS								
Canada	Building Permits	m/m	May	-12.2%	23.4%	-5.2%	**	Equity bearish, bond bullish
Brazil	Economic Activity Index	y/y	May	1.30%	4.01%	1.10%	**	Equity and bond neutral

Financial Markets

The table below highlights some of the indicators that we follow daily. Again, the color coding is similar to the foreign news description above. We will add a paragraph below if a certain move merits further explanation.

Fixed Income	Today	Prior	Change	Trend
3-mo Libor yield (bps)	555	556	-1	Down
3-mo T-bill yield (bps)	520	520	0	Up
U.S. Sibor/OIS spread (bps)	529	529	0	Down
U.S. Libor/OIS spread (bps)	528	528	0	Down
10-yr T-note (%)	4.24	4.18	0.06	Down
Euribor/OIS spread (bps)	366	369	-3	Down
Currencies	Direction			
Dollar	Flat			Down
Euro	Flat			Up
Yen	Down			Down
Pound	Flat			Up
Franc	Flat			Up
Central Bank Action	Current	Prior	Expected	
PBOC 1-Year Med-Term Lending Facility	2.500%	2.500%	2.500%	On Forecast
PBOC 1-Year Med-Term Lending (Bil.)	100.0b	182.0b	90.0b	Above Forecast

Commodity Markets

The commodity section below shows some of the commodity prices and their change from the prior trading day, with commentary on the cause of the change highlighted in the last column.

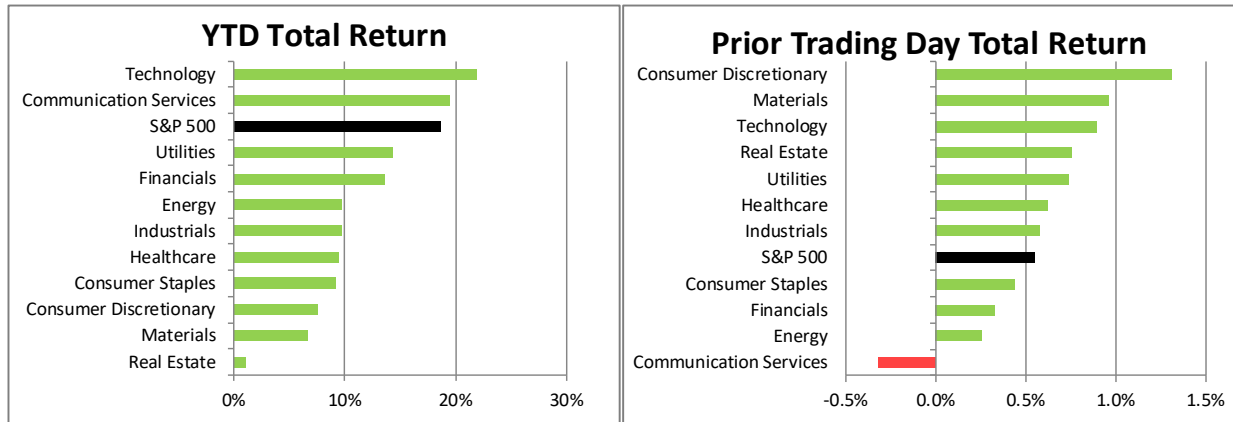
DOE Inventory Report	Price	Prior	Change	Explanation
Energy Markets				
Brent	\$84.97	\$85.03	-0.07%	
WTI	\$82.15	\$82.21	-0.07%	
Natural Gas	\$2.25	\$2.33	-3.61%	
12-mo strip crack	\$21.83	\$21.95	-0.54%	
Ethanol rack	\$2.13	\$2.13	0.16%	
Metals				
Gold	\$2,419.10	\$2,411.43	0.32%	
Silver	\$30.78	\$30.79	-0.03%	
Copper contract	\$455.90	\$459.30	-0.74%	
Grains				
Corn contract	\$409.25	\$414.75	-1.33%	
Wheat contract	\$535.00	\$550.75	-2.86%	
Soybeans contract	\$1,048.50	\$1,065.25	-1.57%	
Shipping				
Baltic Dry Freight	1,997	1,947	50	

Weather

The 6-10 and 8-14 day forecasts currently call for warmer-than-normal temperatures across the Pacific, Northern Rockies, Great Lakes, and New England regions. The precipitation outlook calls for wetter-than-normal conditions throughout most of the country, with dry conditions expected in the Northern Rockies. There is no cyclone activity expected in the Atlantic within the next 48 hours.

Data Section

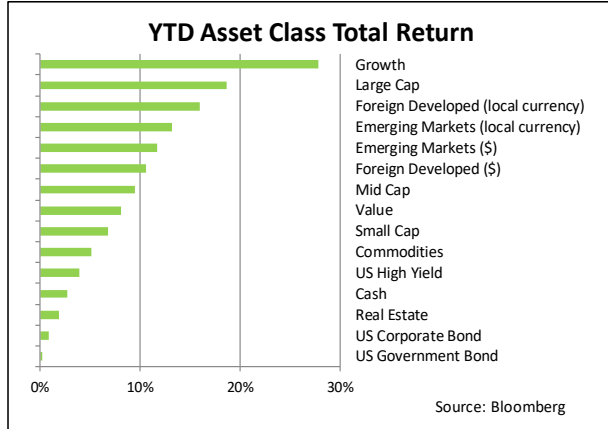
US Equity Markets – (as of 7/12/2024 close)



(Source: Bloomberg)

These S&P 500 and sector return charts are designed to provide the reader with an easy overview of the year-to-date and prior trading day total return. Sectors are ranked by total return; green indicating positive and red indicating negative return, along with the overall S&P 500 in black. These charts represent the new sectors following the 2018 sector reconfiguration.

Asset Class Performance – (as of 7/12/2024 close)

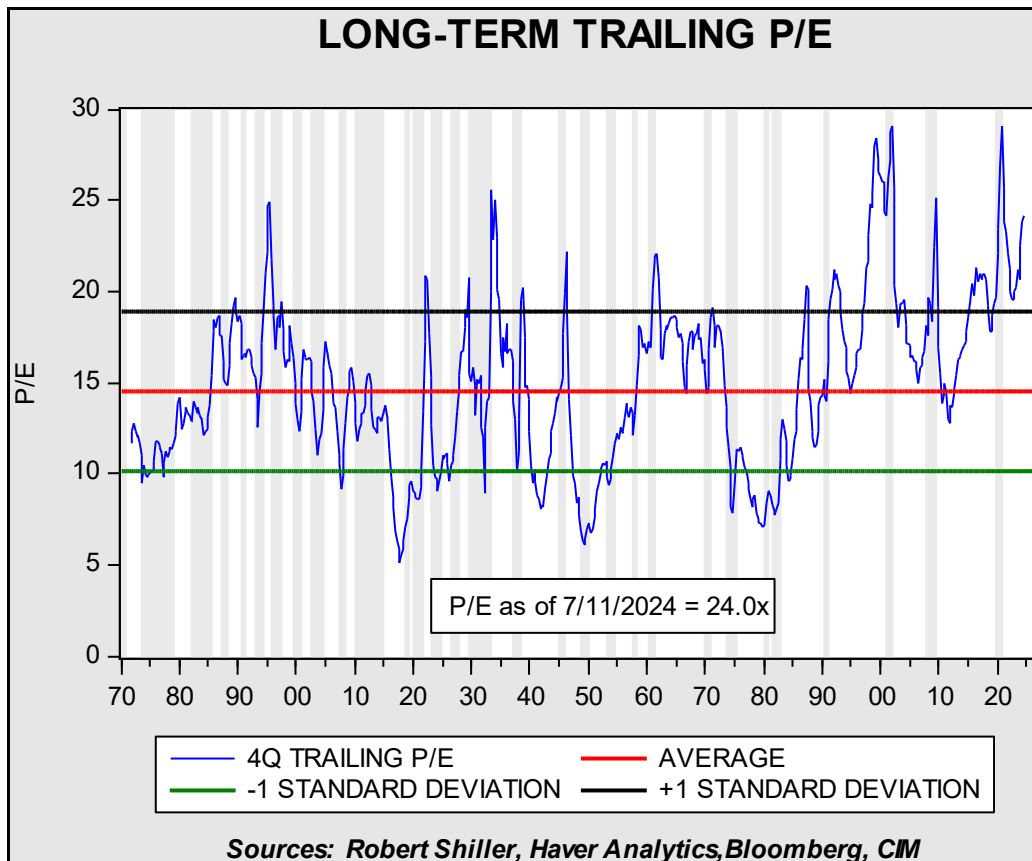


This chart shows the year-to-date returns for various asset classes, updated daily. The asset classes are ranked by total return (including dividends), with green indicating positive and red indicating negative returns from the beginning of the year, as of prior close.

Asset classes are defined as follows: Large Cap (S&P 500 Index), Mid Cap (S&P 400 Index), Small Cap (Russell 2000 Index), Foreign Developed (MSCI EAFE (USD and local currency) Index), Real Estate (FTSE NAREIT Index), Emerging Markets (MSCI Emerging Markets (USD and local currency) Index), Cash (iShares Short Treasury Bond ETF), US Corporate Bond (iShares iBoxx \$ Investment Grade Corporate Bond ETF), US Government Bond (iShares 7-10 Year Treasury Bond ETF), US High Yield (iShares iBoxx \$ High Yield Corporate Bond ETF), Commodities (Bloomberg total return Commodity Index), Value (S&P 500 Value), Growth (S&P 500 Growth).

P/E Update

July 11, 2024



Based on our methodology,¹ the current P/E is 24.0x, up 0.2 from our last report. The increase in the multiple was due to an increase in the stock price index offsetting a slight increase in earnings.

This report was prepared by Confluence Investment Management LLC and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward-looking statements expressed are subject to change. This is not a solicitation or an offer to buy or sell any security.

¹ This chart offers a running snapshot of the S&P 500 P/E in a long-term historical context. We are using a specific measurement process, similar to *Value Line*, which combines earnings estimates and actual data. We use an adjusted operating earnings number going back to 1870 (we adjust as-reported earnings to operating earnings through a regression process until 1988), and actual operating earnings after 1988. For the current quarter, we use the Bloomberg estimates which are updated regularly throughout the quarter; currently, the four-quarter earnings sum includes three actual quarters (Q1, Q2 and Q3) and one estimate (Q2). We take the S&P average for the quarter and divide by the rolling four-quarter sum of earnings to calculate the P/E. This methodology isn't perfect (it will tend to inflate the P/E on a trailing basis and deflate it on a forward basis), but it will also smooth the data and avoid P/E volatility caused by unusual market activity (through the average price process). Why this process? Given the constraints of the long-term data series, this is the best way to create a long-term dataset for P/E ratios.